

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

Background:

The Commonwealth has engaged in a comprehensive and aggressive E-Commerce disbursements program for many years. Numerous electronic commerce initiatives within the Department of Accounts and Department of the Treasury and other agencies throughout the state reduce the number of state-issued checks by millions annually using more efficient electronic payment processes. Tools such as Financial Electronic Data Interchange (EDI), Payroll Direct Deposit, and Charge Cards are more reliable and cost effective than traditional paper checks. Electronic payments are also more secure because of the use of encryption and other security measures. In addition to these tools, the issuance of electronic earnings notices through Payline further reduces paper printing and related costs.

The Commonwealth's E-Commerce programs are best practices that demonstrate effective financial management and cost control. Agencies and institutions are expected to embrace these tools to the fullest extent possible. § 4-5.04 f. of the *Appropriation Act* authorizes the State Comptroller to charge state agencies \$5 per transaction fee when E-commerce disbursements are not fully utilized.

The State Comptroller reports E-Commerce utilization statistics each quarter in the Report on Statewide Financial Management and Compliance (see link). Agencies and institutions are reported if utilization statistics indicate that they are not fully utilizing the E-commerce tools available to them. Other agencies of the Commonwealth that are responsible for payment processes outside of those processed centrally have also embraced E-commerce initiatives (e.g., VEC, DSS, DMAS, VRS, and Taxation). The methodology for accumulating the Statewide E-Commerce Performance Statistics includes the additional payments made by these agencies. During fiscal year 2010 the Commonwealth made nearly 13 million electronic payments totaling nearly \$40 billion.

http://www.doa.virginia.gov/General_Accounting/Quarterly_Report/2010/March_2010.pdf

Payroll Disbursements – § 4-6.01e.2 of the *Appropriation Act* authorizes the State Comptroller to mandate payment of wages or salaries to state employees via electronic payments. Effective August 1, 2008, direct deposit was mandated for all new hires paid either centrally or by a decentralized institution. Additionally, agencies may mandate direct deposit for all salaried and wage employees at their discretion. Printing of 2 million paychecks is avoided annually by payroll direct deposit. Given the high level of agency compliance with payroll disbursement E-Commerce programs, the \$5 under-utilization fee has not been applied to payroll. Key direct deposit statistics follow:

- Direct deposit participation levels – Salaried 99.2%, Wage 96%, Overall 98.6% *
 - 84,056 employees on direct deposit, \$2.5 billion disbursed annually
 - Just 499 salaried employees receive paychecks, 656 wage employees

* Information excludes restructured and decentralized institutions of higher education

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

Earnings Notice Elimination – Effective January 1, 2009, all employees with access to state-issued computers with internet access were mandated to use Payline (web-based electronic pay stub system) and to opt-out of earnings notice print. Currently, 97.5% of salaried and wage employees paid centrally (81,955 employees) do not receive earnings notices. This program eliminates the printing costs of 2 million earnings notices annually.

Pay Cards – Since not all employees maintain bank accounts, a small percentage of “unbanked” employees’ pay is deposited to an account accessible to the employee through a debit MasterCard (EPPICard) or “Pay Card.” This electronic payment option is also available to those on direct deposit who wish to have a portion of their pay set aside on the pay card each payday. 1,612 employees currently participate with nearly \$20 million disbursed annually.

Electronic Data Interchange (EDI) Disbursements – §§ 4-5.04 h. and e.5. of the *Appropriation Act* authorizes the State Comptroller to mandate electronic payment to any recipient of six or more payments per year from the State Treasury and any state employee receiving three or more travel reimbursement payments per year. Over \$25 billion is disbursed annually through EDI, avoiding nearly 300,000 checks annually. All intergovernmental payments to the federal government and to local governments are made using EDI.

Remittance Data – An essential element of EDI payment systems is the capacity to provide payments to bank accounts and to provide remittance information enabling the payment recipient to match payments with invoicing and billing information. DOA operates a web-based remittance information system, REDI Virginia (“Remittance” EDI) to provide invoice and other reference information along with email alerts to notify payees when payments are made. Remittance data is routinely sent to REDI Virginia using a CCD+ EDI record. Additionally, DOA’s EDI system accommodates another EDI payment type, CTX, which provides flexibility to our trading partners to receive remittance data directly through their banks for automated upload into their billing systems.

EDI Enrollment Efforts – Over 21,000 payees have been identified as receiving six or more payments annually (see following table). Since the Department of Accounts has limited staffing resources available to actively enroll all 21,000 vendors and contractors eligible for the statutory mandate, enrollment efforts are prioritized to target recipients with higher volumes of payments. Currently, DOA is targeting payees receiving more than 300 payments annually.

<u>Check Count</u> <u>Range</u>	<u>Number</u> <u>of Payees</u>	<u>Number of</u> <u>checks</u>
301 or more	390	226,662
251-300	140	38,517
201-250	198	44,393
151-200	305	52,948
101-150	520	64,340
51-100	1,122	80,048

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

6-50	18,579	226,895
Identified Vendors	21,254	733,803

EDI enrollment for all payees is not always straight-forward or simple. For example, just 137 of the 390 payees currently under active enrollment focus are procurement vendors. The remaining 253 payees receive payments for court services, including part-time judges, court-appointed attorneys, interpreters and court stenographers. Prior to enforcing the statutory mandate on such groups, the State Comptroller must inform and build consensus with the various stakeholder groups involved.

EDI Travel Reimbursement – Expansion of the Travel EDI program has been an integral part of the statewide E-Commerce effort for many years. DOA actively notifies agencies of the requirement to enroll employees receiving three or more travel reimbursement annually and utilization statistics are reported in the quarterly Report on Statewide Financial Management and Compliance. Agency EDI coordinators are contacted in an effort to increase the number of employees enrolled. Some agencies have failed to enroll employees in EDI as required and in accordance with § 4-5.04 f. of the *Appropriation Act*, the Comptroller charges non-compliant agencies \$5 for each travel reimbursement check issued. Agencies are expected to take action to enroll applicable employees in the EDI program and avoid the fees altogether. During the past year just under \$40,000 was charged to agencies of which 75 percent was incurred by Courts. Agencies are also highly encouraged to enroll board and commission members and other non-employees that receive travel reimbursements on a recurring basis, however there is no statutory mandate for such enrollment.

Charge Card Programs – The Commonwealth’s charge card programs include the Small Purchase Charge Card (transactions up to \$5,000), Increased Limit Gold Card (transactions up to \$50,000), Employee Paid Travel Charge Card and Airline Travel Charge Card. Purchasing charge card programs offer agencies and institutions alternative payment methods that improve administrative efficiency. Purchase charge cards decrease the number of checks issued and the associated administrative costs of processing invoices. Suppliers benefit from reduced billing costs and expedited payments and the Commonwealth earns annual rebates based on spending volume. In fiscal year 2010, over 900,000 purchase card transactions and \$360 million was charged, which eliminated printing of over 600,000 checks and earned a total rebate of approximately \$5.8 million. Additionally, in fiscal year 2009 the Department of Accounts negotiated a one-time \$2.5 million signing bonus with the current charge card contractor.

Utilization Monitoring and Reporting – Use of the Small Purchase Charge Card for vendors who accept VISA cards is mandatory. The current statewide utilization level is 79 percent. Agency utilization levels for the Small Purchase Charge Card program are monitored and reported in the quarterly Statewide Financial Management and Compliance report. The current utilization compliance and reporting threshold is set at 70 percent, with plans to raise this compliance threshold up to 80 percent over the next year. Agencies whose charge card utilization level falls below this threshold are charged a \$5 fee per non-compliant transaction in accordance with § 4-

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

5.04 f. of the *Appropriation Act*. All non-EDI payments under \$5,000 processed through CARS and not placed on the purchase charge card are matched against a database of vendors who accept VISA to determine utilization levels and related fees. During fiscal year 2010, \$195,245 was charged to agencies of which 62% was incurred by Courts and VDOT.

Purchase Charge Cards and eVA – Purchase charge cards are easily used when ordering through eVA. Purchase charge cards can also be used efficiently and effectively for phone, fax and over-the-counter purchases using normal charge card logging and review control procedures. However, state purchasing policy also requires data entry of “confirming orders” in eVA for small purchases made using purchase charge cards by phone, fax and over-the-counter. This additional eVA data entry reduces efficiency for a high volume of small purchase transactions, yet adds visibility over an extremely nominal percentage of the \$5 billion in total eVA spend. The following table shows the small purchase charge card transaction counts and amounts for small purchase charge card activity in fiscal year 2010. Over 640,000 transactions of less than \$300 were made (over 400,000 of them of less than \$100) representing just 1.2% of total eVA spend. Although many of these transactions were likely processed through eVA, many were phone, fax and over-the-counter purchases, each of which would also need to be subsequently entered into eVA as a confirming order under current purchasing policy.

					<u>Charge Card Spend as a percent of \$5 billion Total eVA Spend</u>
<u>Transaction Amount</u>	<u>Percent</u>	<u>Count</u>	<u>Percent</u>	<u>Total Amount</u>	
\$0 to \$99.99	45%	405,163	4%	\$ 15,444,555	.3%
\$100 to \$299.99	26%	237,091	12%	41,044,955	.8%
\$300 to \$499.99	10%	94,820	10%	35,289,333	.7%
\$500 to \$999.99	9%	85,737	16%	57,819,351	1.2%
\$1,000 to \$2,999.99	7%	65,477	29%	105,562,324	2.1%
\$3,000 to \$4,999.99	2%	16,237	17%	62,397,478	1.2%
\$5,000 and up	1%	3,991	12%	43,379,246	.9%
Total		908,516		\$ 360,937,243	7.2%

Employee Paid Travel Charge Cards – The Commonwealth is responsible for all legitimate charges made under all charge card programs except for the Employee Paid Travel Charge Card. The travel charge card provides employees with a means of charging reimbursable travel and related expenses while conducting official state business. The Commonwealth earns a rebate on spend under this program. Unlike other charge card programs in which the agency directly receives and pays a summarized bill for all cardholders, each travel charge cardholder is personally responsible for all charges placed on the travel card and for paying the bill on time. However, under the Commonwealth’s charge card contract, timely payment of card statements is required to ensure late and delinquent accounts do not impact the Commonwealth’s rebate level. The charge card contractor takes the following actions on delinquent accounts:

- 30 days past due – noted on statement, letter sent to the cardholder.
- 31-60 days past due – charging privileges are temporarily suspended until balance is paid.

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

- 61-90 days past due – the account is permanently closed. Cardholder is no longer eligible to participate in the program.

Benefit Cards and Other E-Commerce Disbursement Programs – The Commonwealth supports other special-purpose agency-administered Benefit Card and electronic payment programs including the following:

- Child Support Payments – Electronic Benefit Transfer (EBT) card or direct deposit is mandatory for clients receiving two consecutive payments.
 - Nearly 4 million payments and \$600 million disbursed electronically annually
- TANF – Temporary Assistance for Needy Families – EBT card or direct deposit is not mandatory but is encouraged (just 5% of clients receive checks).
 - Over 450,000 payments and \$116 million disbursed electronically annually
- Unemployment Compensation – EBT card or direct deposit is mandatory.
 - Over 51,000 claimants enrolled in latest quarter and \$1.9 billion disbursed electronically annually
- Tax Refunds – direct deposit of tax refunds is not mandatory but is encouraged (52 percent receive checks).
 - Over 1.3 million direct deposits and nearly \$1 billion disbursed electronically annually
- Retirement payments – direct deposit of pension payments is not mandatory but is encouraged (just 3% receive checks).
 - Over 1.7 million direct deposits and \$2.8 billion disbursed electronically annually
- Worker’s Compensation – 3rd party administrator makes payments to recipients.
 - Electronic payments are impractical due to the non-recurring nature of payments. However, the Commonwealth funds 3rd party administrator account using EDI.
- Medicaid/CHIP – 3rd party administrator makes payments to doctors and hospitals.
 - 86 percent of payments, \$3 billion disbursed electronically annually.

Fleshing out the idea and potential avenue for implementation:

Opportunity – Increase emphasis on EDI enrollment in eVA vendor registration. Evaluate feasibility of EDI enrollment automation.

Opportunity – Extend mandatory EDI for state employees receiving three or more travel reimbursements annually to board members and other non-employees.

Opportunity – Change eVA entry policy on confirming orders to eliminate the requirement to enter confirming orders in eVA for small purchase charge card transactions of under \$300.

Stakeholders:

State Agencies
Department of Accounts

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

Department of the Treasury
Department of General Services

Appendix I

Reform Commission Consolidation and Shared Services Committee E-Commerce Disbursements

Cost to implement:

TBD

Potential Cost Savings:

Extending the EDI mandate to board members and other non-employees receiving three or more travel reimbursements annually will eliminate up to 10,000 checks annually. The cost of printing and mailing a check costs approximately \$1.

The administrative cost savings associated with the data entry of 640,000 eVA confirming orders has not been estimated but is substantial.

Potential improvements to quality of service:

Increased emphasis on EDI enrollment in eVA vendor registration will not reduce costs but could facilitate enrollment for vendors. If feasible, automated EDI enrollment will not reduce costs but could enable quicker enrollment of the larger number of vendors and other payees receiving more than 6 payments annually.

Potential opponents and arguments for and against adopting the ideas:

Arguments for:

- Improved efficiency

Arguments against:

- The Department of General Services is generally opposed to any purchase transactions not being entered into eVA.